

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 USIA-06 AID-05 EB-07 NSC-05

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LIMITED OFFICIAL USE MADRID 5171

E.O. 11652: N/A

TAGS: ECON,SP

SUBJECT: INFLATION AND POLITICS

REF: A. MADRID 4916, B. MADRID 5094

1. SPANISH PRESS HAS GIVEN WIDE PUBLICITY TO NATIONAL STATISTICAL INSTITUTE ANNOUNCEMENT JUNE 28 THAT COST-OF LIVING INDEX ROSE BY 4.58 PERCENT IN MAY, BRINGING INCREASE FOR FIRST FIVE MONTHS OF 1976 TO 11.72 PERCENT. RESULT OF ANNOUNCEMENT, FOLLOWING JUNE 22 DEMONSTRATION IN MADRID PROTESTING HIGH COST OF LIVING (REF A) HAS BEEN TO SHARPEN FOCUS OF ATTENTION ON INFLATIONARY PROBLEM AND ON GOVERNMENT'S INABILITY THUS FAR TO COME TO GRIPS WITH ECONOMIC ISSUES.

2. PLACED ON THE DEFENSIVE, THE INTERMINISTERIAL ECONOMIC COMMITTEE CHAIRED BY ARIAS MET JUNE 30 AND ISSUED A NOTICE THE FOLLOWING DAY ATTEMPTING TO EXPLAIN THAT, DISCOUNTING STATISTICAL ANOMALIES, THE COST-OF-LIVING INCREASE THROUGH MAY WAS SOMEWHAT UNDER 8 PERCENT. ACCORDING TO THE GOVERNMENT'S EXPLANATION, EXTRAORDINARY AND ONE-TIME INCREASES IN THE PRICE OF BREAD AND POTATOES

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DURING MAY UNDULY INFLUENCED THE COTS OF LIVING BECAUSE

OF THE ANACHRONISTICALLY HIGH WEIGHT STILL GIVEN TO THESE COMMODITIES IN SPANISH CONSUMPTION. UNDER A NEW BASKET OF GOODS TO CALCULATE COST-OF-LIVING INDEX, WHICH WILL REPLACE PRESENT CONSUMER PATTERN DEVELOPED IN 1968, WEIGHT OF BREAD IN SPANISH CONSUMPTION WILL BE REDUCED FROM 5.55 PERCENT TO 2.33 PERCENT AND POTATOES FROM 2.16 PERCENT TO 1.08 PERCENT. HOWEVER, GOVERNMENT HAS DELAYED APPLYING NEW WEIGHTS TO STATISTICAL DATA UNTIL FIRST OF YEAR.

3. IT IS TRUE THAT SPANISH DIET AND CONSUMPTION PATTERNS HAVE CHANGED RAPIDLY IN RECENT YEARS, AND IT IS DIFFICULT TO DETERMINE HOW ACCURATELY COST-OF LIVING INDEX REFLECTS REAL RATE OF INFLATION. NEVERTHELESS, THERE IS RISING PUBLIC DISSATISFACTION WITH THE SHRINKING VALUE ON MONEY IN THE MARKET PLACE, AND THIS IS SURE TO BECOME ONE OF MOST SALIENT POLITICAL ISSUES AS POLITICAL PARTIES ASSERT THEMSELVES AND WAGE CONTRACTS COME UP FOR RENEWAL.
STABLER

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